

June 8, 2000

**MEMORANDUM FOR MEMBERS OF THE PRESIDENT'S COUNCIL ON
INTEGRITY AND EFFICIENCY
MEMBERS OF THE EXECUTIVE COUNCIL ON
INTEGRITY AND EFFICIENCY**

**FROM: GREGORY H. FRIEDMAN
CHAIR
PCIE AUDIT COMMITTEE**

SUBJECT: 2000 UPDATE TO AUDIT PEER REVIEW GUIDE

At the request of the Audit Committee of the President's Council on Integrity and Efficiency (PCIE), the Federal Audit Executive Council (FAEC) performed a limited review of the Guide for Conducting External Quality Control Reviews of the Audit Operations of Offices of Inspector General (1997) (the Guide). The purpose of the review was to determine if any updates were required for the 2000-01 peer review cycle.

Based on its review, the FAEC membership agreed that the guide remains an adequate tool for determining whether an audit organization is complying with Government auditing standards. The FAEC noted the issuance of certain new Office of Management and Budget (OMB) guidance and other Federal standards, and recommended the inclusion of some additional review steps. Finally, the FAEC recommended that the Audit Committee coordinate a comprehensive review of the Guide for use in time for the 2003-04 peer review cycle.

The Audit Committee has reviewed and concurs with the recommendations of the FAEC. Consequently, the Guide is hereby reissued for the 2000-01 cycle with the following additions and clarifications:

Reviewers should continue to use the Guide (1997), but with respect to the review of financial statement audits, the most current OMB Guidance and Federal accounting standards need to be considered. Specifically, OMB Bulletin Nos. 93-06 (Audit Requirements) and 94-01 (Form and Content) have been replaced by Nos. 98-08 and 97-01, respectively. Also, several Statements of Federal Financial Standards have been issued (9 through 17) by the Federal Accounting Standards Advisory Board since publication of the Guide, which introduce new financial statements and revised presentation requirements for certain financial information. Appendix E of the Guide - Checklist for Individual Performance Audits and the Attachment (Financial Statement Presentation and Disclosure Checklist) should be revised to incorporate these requirements. Reviews of financial statement audits should evaluate the work in terms of the standards and guidance that are current at the time the work is performed.

In addition, whether or not Federal staff or an Independent Public Accountant conducts the financial statement audit, Appendix E of the Guide should be used to evaluate the adequacy of the work. Accordingly, Appendix G - Checklist for Review of Independent Public Accountant (IPA) Monitoring, should be revised by adding the following review steps:

Under 2.b: After (4). "Review contracts with independent public accountants for inclusion of the required contract provisions outlined in 2.b. (1) to (4). Establish that the terms are specific enough to assure compliance with performance and reporting requirements."

Under 2.d: "(3) For audits of Federal financial statements, review audit performance and reporting applying Appendix E - Checklist for Individual Financial Audits and the Attachment - Financial Statement Presentation and Disclosure Checklist."

These review steps are designed to determine whether Office of Inspector General contracts with certified public accountants, as well as certified public accountants' actual performance, address the matters covered in Appendix E and the related enclosure. The addition of these review steps help ensure that certified public accountants meet the performance and reporting requirements specified by the General Accounting Office and OMB in conducting Federal financial statement audits.

The Audit Committee recognizes that fieldwork for the 2000-01 review cycle may have already been initiated, or, in some cases, is nearing completion. In those limited instances where review work for the 2000-01 cycle is nearing completion, those offices should use the new procedures to the extent practicable where they are relevant to the reviewed organization's operations. This includes, in particular, the new OMB guidance and Federal standards. Again, the PCIE Audit Committee, in close coordination with the FAEC, plans to complete a comprehensive review to revise the Guide in time for the 2003-04 peer review cycle.

cc: Russell Rau, Chair, Federal Audit Executive Council